

**2012 Ag
Profitability
Conference**

**Profitability in
Volatile Times**

December 11, 2012

4-H Hall

7001 W. 21st St. N.
(21st St. North & Ridge Rd)
Wichita, Kansas



Kansas State University
Department of Agricultural Economics

Beef & Cattle Market Outlook

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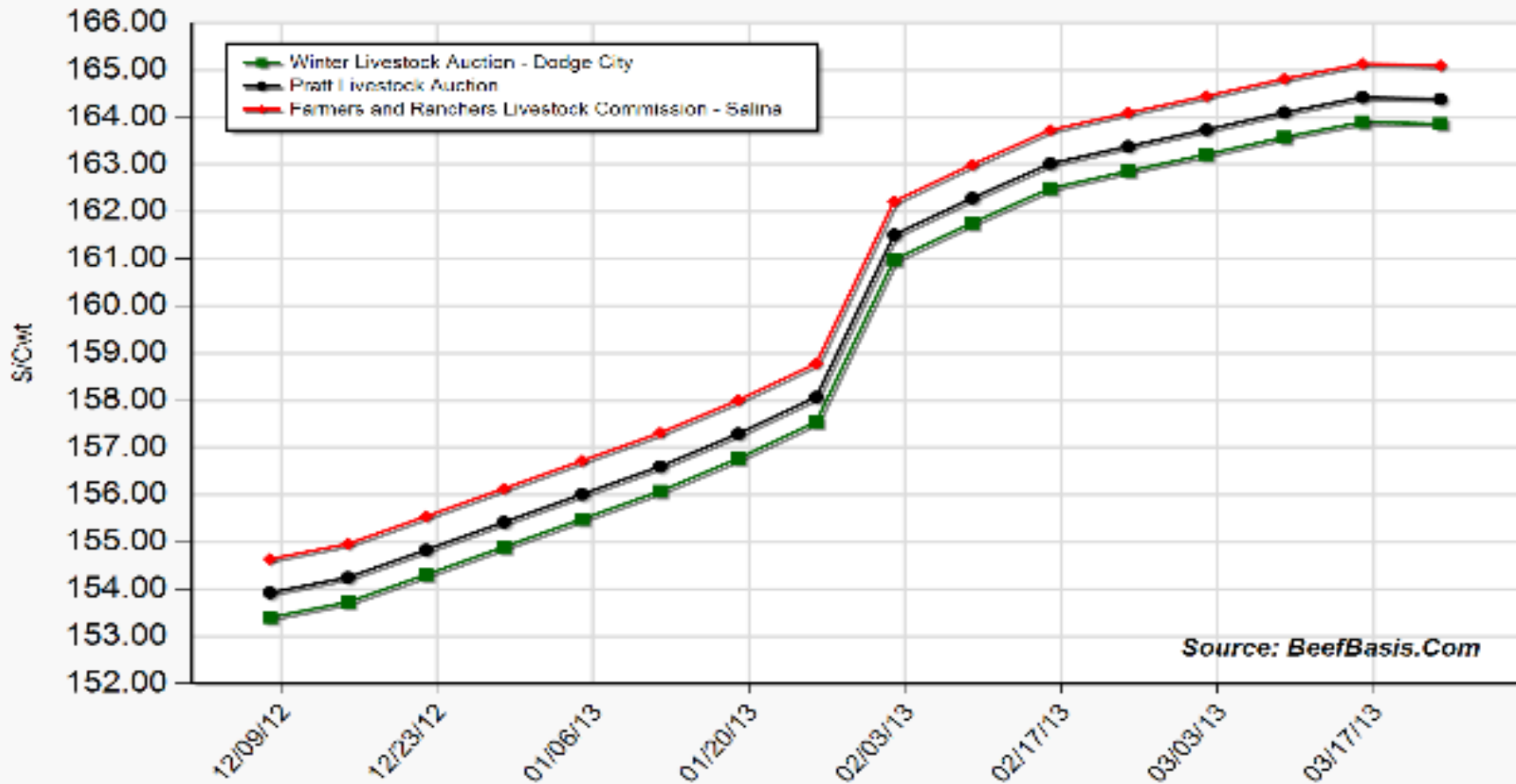
Economic Outlook Overview: Cow-Calf Sector

- Historical year for calf price levels and variability...
 - “White hot” market in spring
 - National vs. regional drought magnified market impact compared to 2011
 - 2013 market will reflect tight supplies, water prospects, expansion possibilities...
- Returns over cash costs
 - 2012 (2013) estimates have fell over \$170/cow (\$75) since March
 - Will 2015 now be “the peak return year” ?
- Further widening between top 1/3 and bottom 1/3 of producers?
 - Cost management drives majority of differences in returns and likely is even more critical in period of drought response
 - Read: [http://www.agmanager.info/livestock/budgets/production/beef/Cow-calf_EnterpriseAnalysis\(Nov2012\).pdf](http://www.agmanager.info/livestock/budgets/production/beef/Cow-calf_EnterpriseAnalysis(Nov2012).pdf)



As of: 12/7/12

Projected Price for 550 Lb Steer at Selected Kansas Auctions



Source: BeefBasis.Com



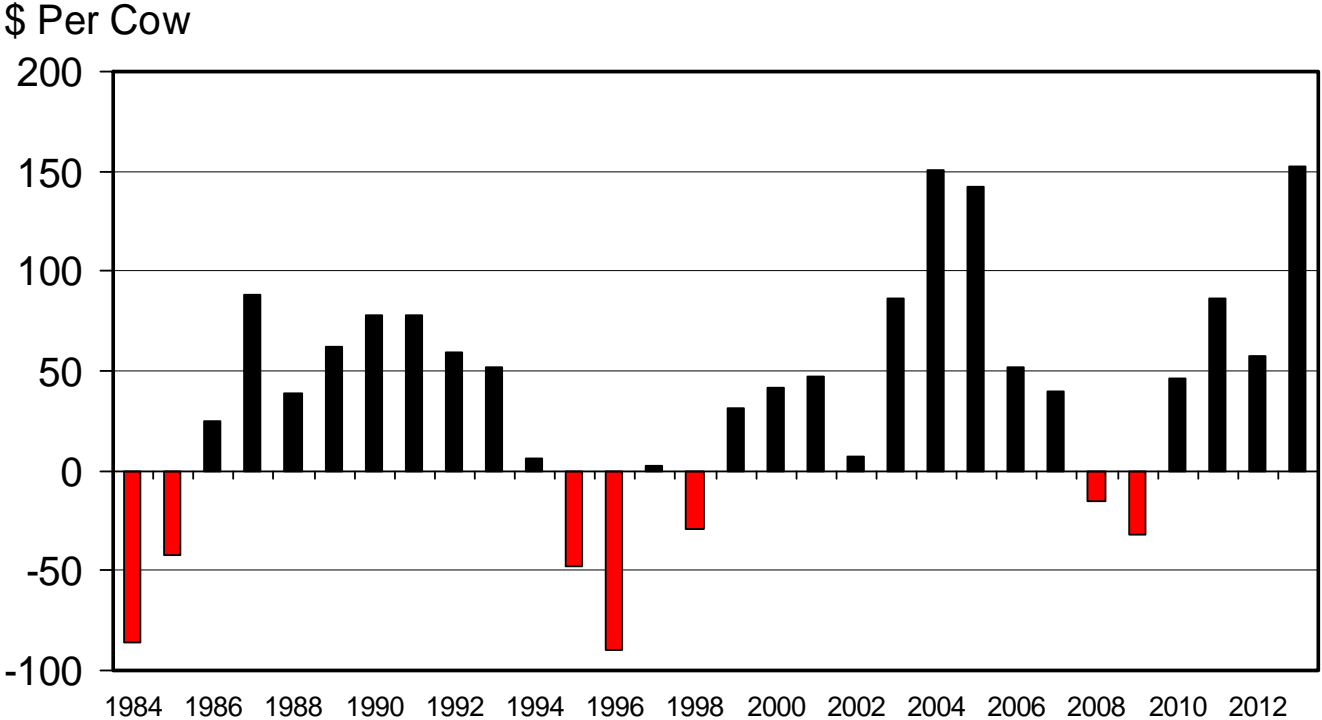
<http://www.agmanager.info/livestock/marketing/graphs/cattle/prices/default.asp>

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ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
09/20/12

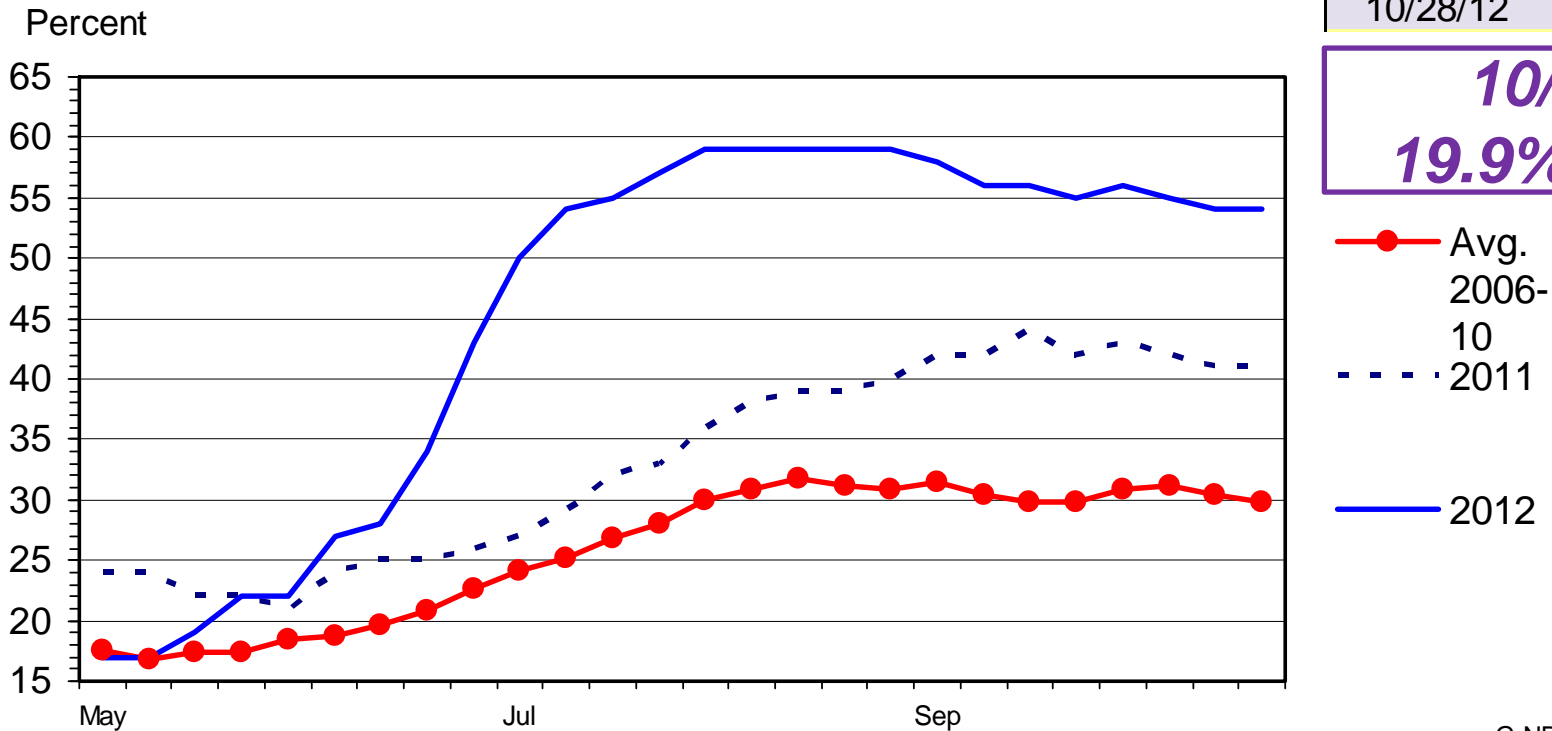


US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

Beef Cows in states with 40% Poor to Very Poor		
Last year	Cows	% of Total
10/23/11	14862	48.31%
10/30/11	14185	46.11%
This Year		
10/21/12	21009	70.50%
10/28/12	21009	70.50%

**10/31/10':
19.9% of Cows**



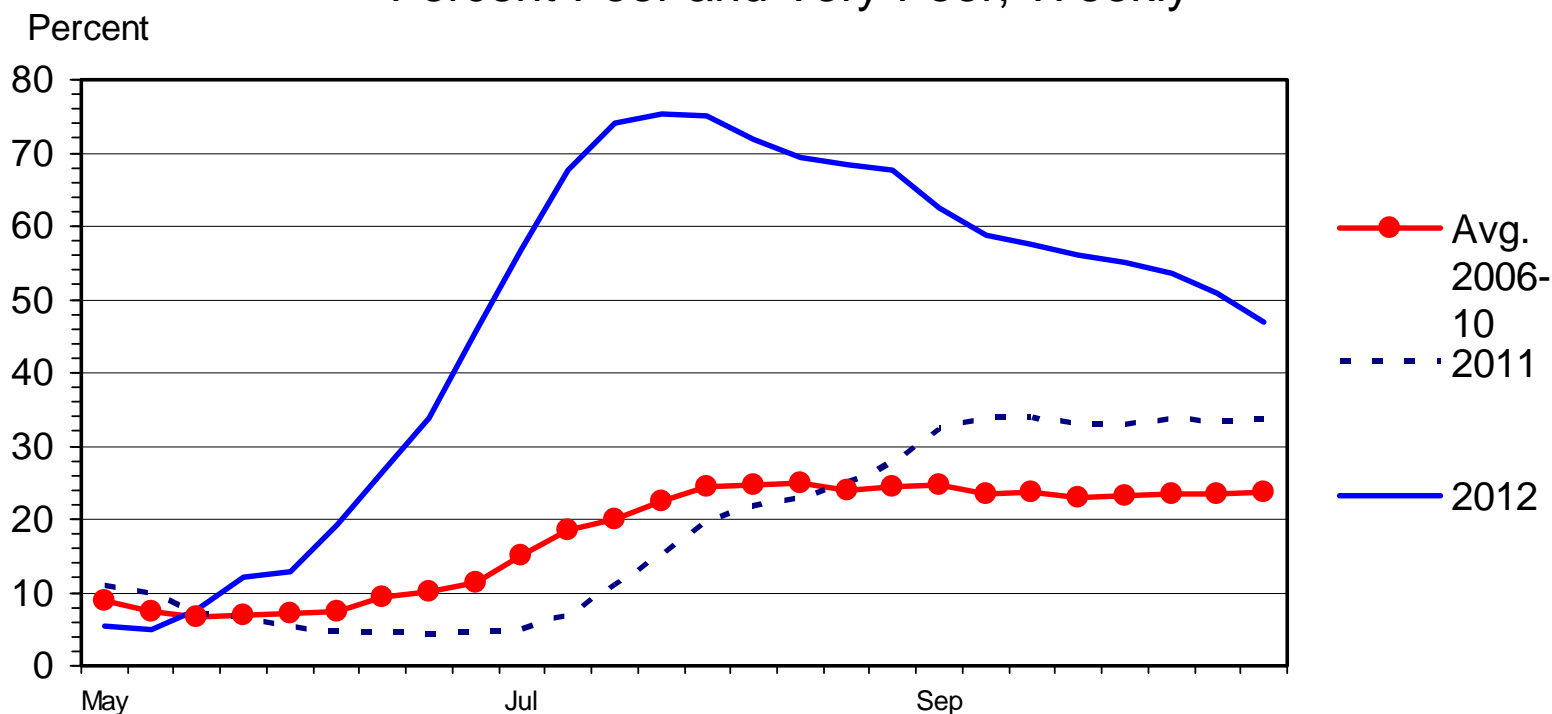
Livestock Marketing Information Center
Data Source: USDA-NASS, Compiled & Analysis by LMIC

G-NP-30
10/31/12

IL, IN, IA, MI, MN,
MO, OH, & WI
14.5% of Cows
(2012)

CORNBELT REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-34
10/31/12

Livestock Marketing Information Center

Data Source: USDA-NASS, Compiled & Analysis by LMIC

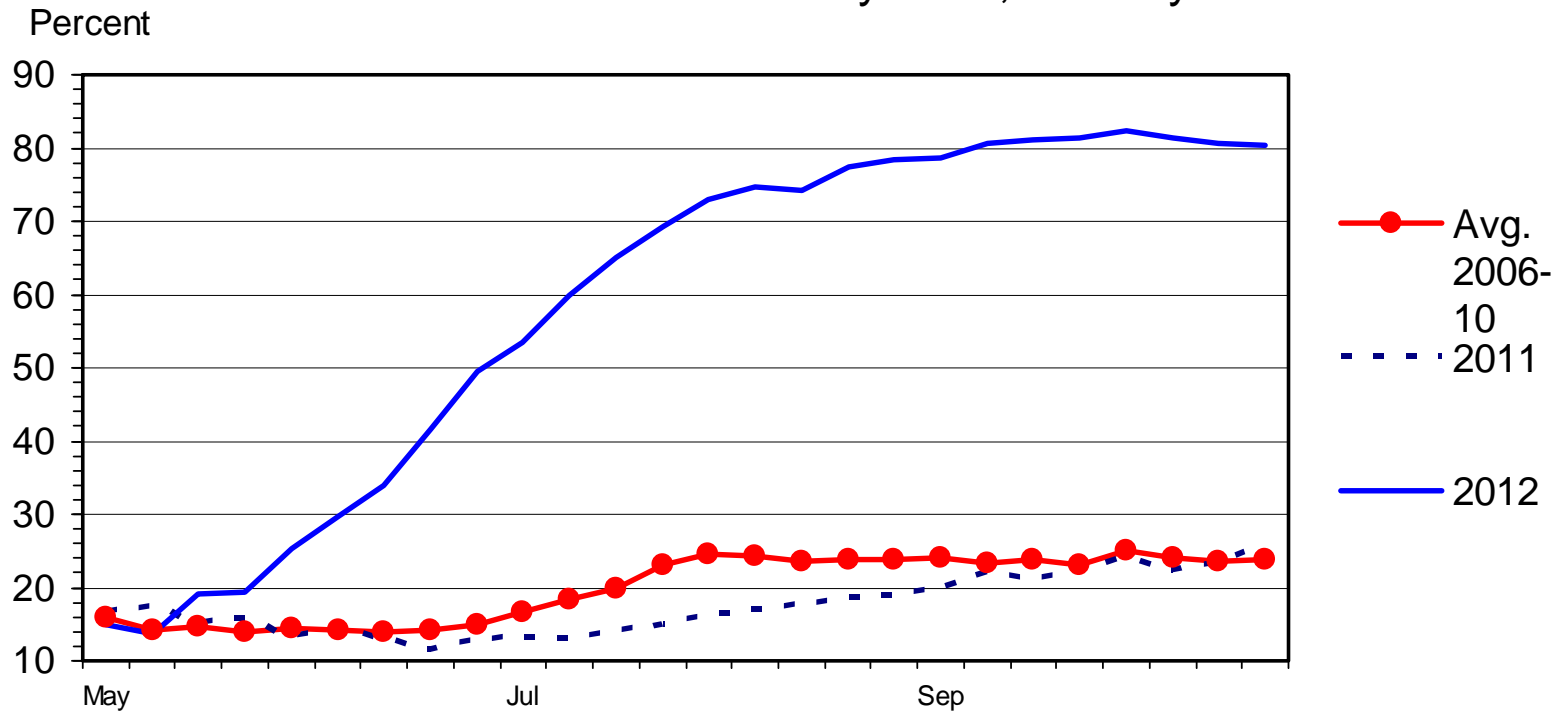
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CO, KS, MT, NE, ND,
SD, & WY
29.2% of Cows
(2012)

GREAT PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-32
10/31/12

Livestock Marketing Information Center

Data Source: USDA-NASS, Compiled & Analysis by LMIC

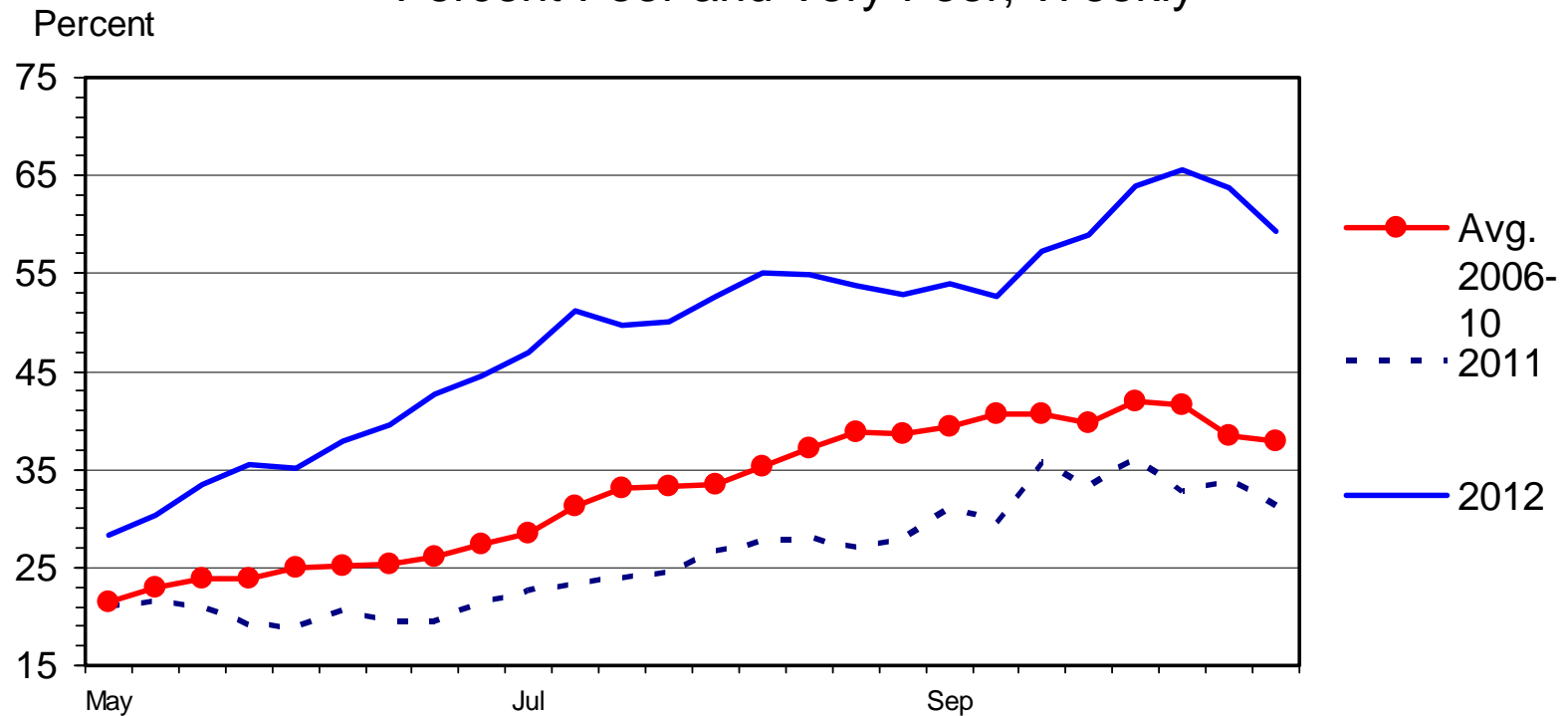
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AZ, CA, ID, NV, NM,
OR, UT, & WA
10.2% of Cows
(2012)

WESTERN REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-31
10/31/12

Livestock Marketing Information Center

Data Source: USDA-NASS, Compiled & Analysis by LMIC

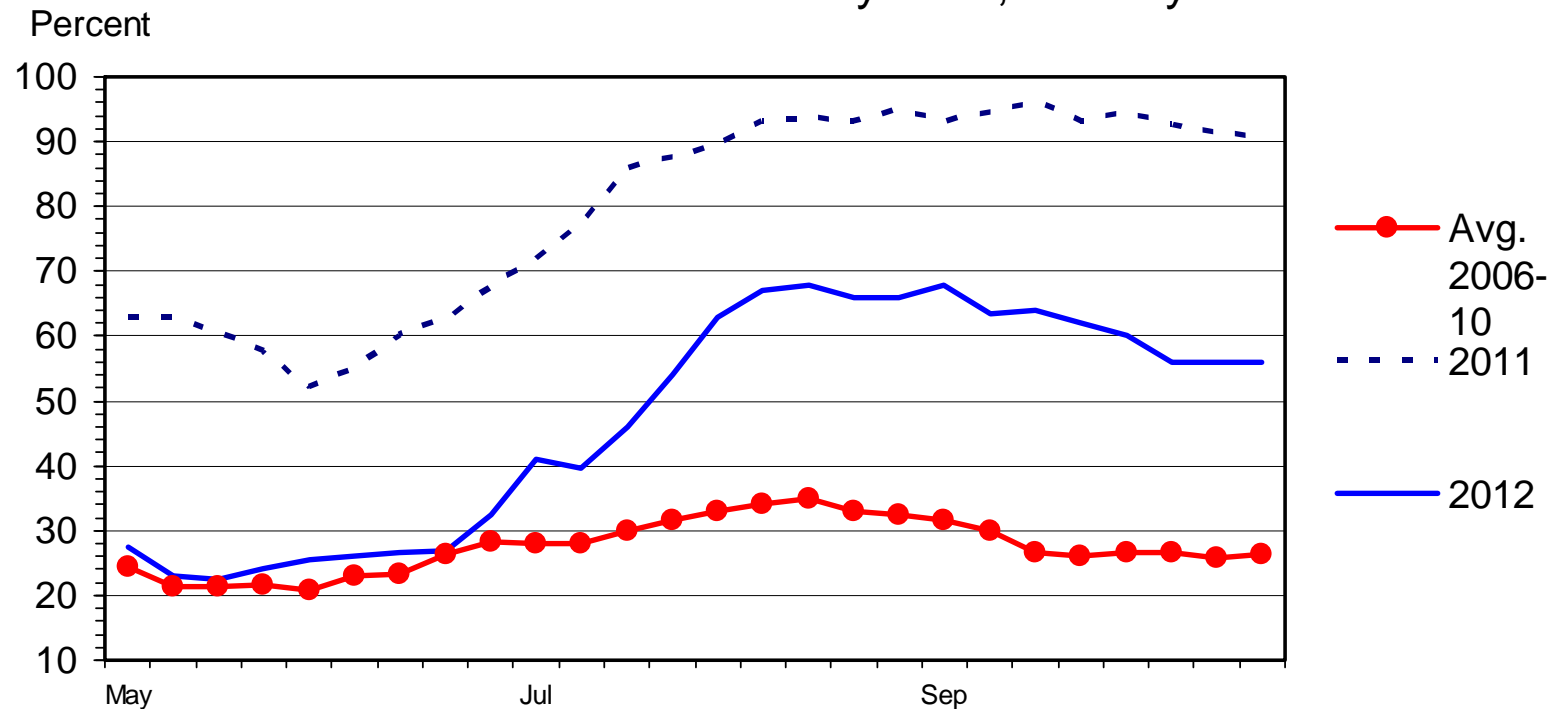
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OK & TX
20.4% of Cows
(2012)

SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-33
10/31/12

Livestock Marketing Information Center

Data Source: USDA-NASS, Compiled & Analysis by LMIC

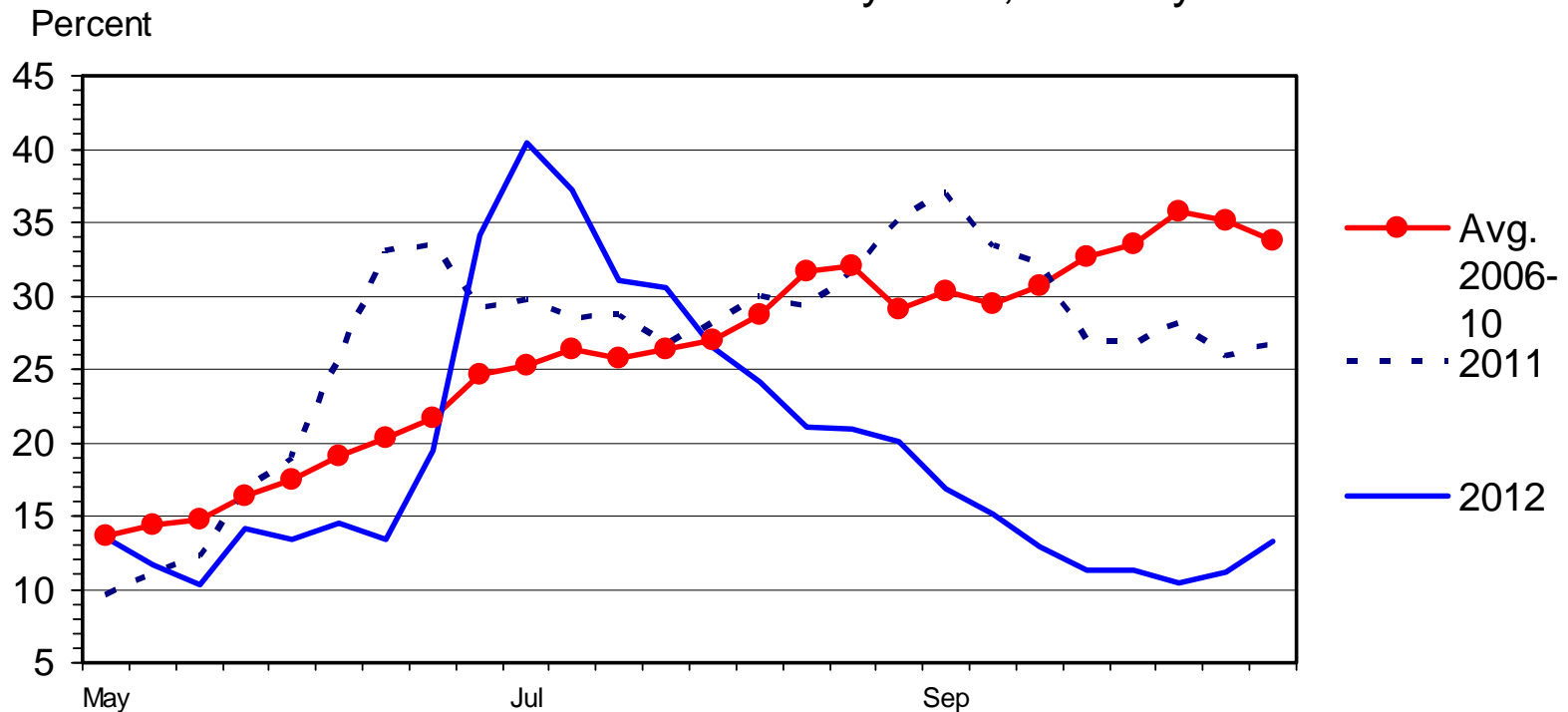
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AL, AR, FL, GA, KY,
 LA, MS, NC, SC, TN,
 VA, & WV
 24.5% of Cows (2012)

SOUTHEAST REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

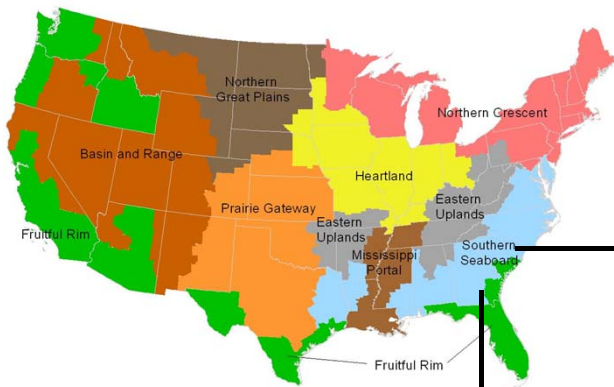


G-NP-36
 10/31/12

Livestock Marketing Information Center

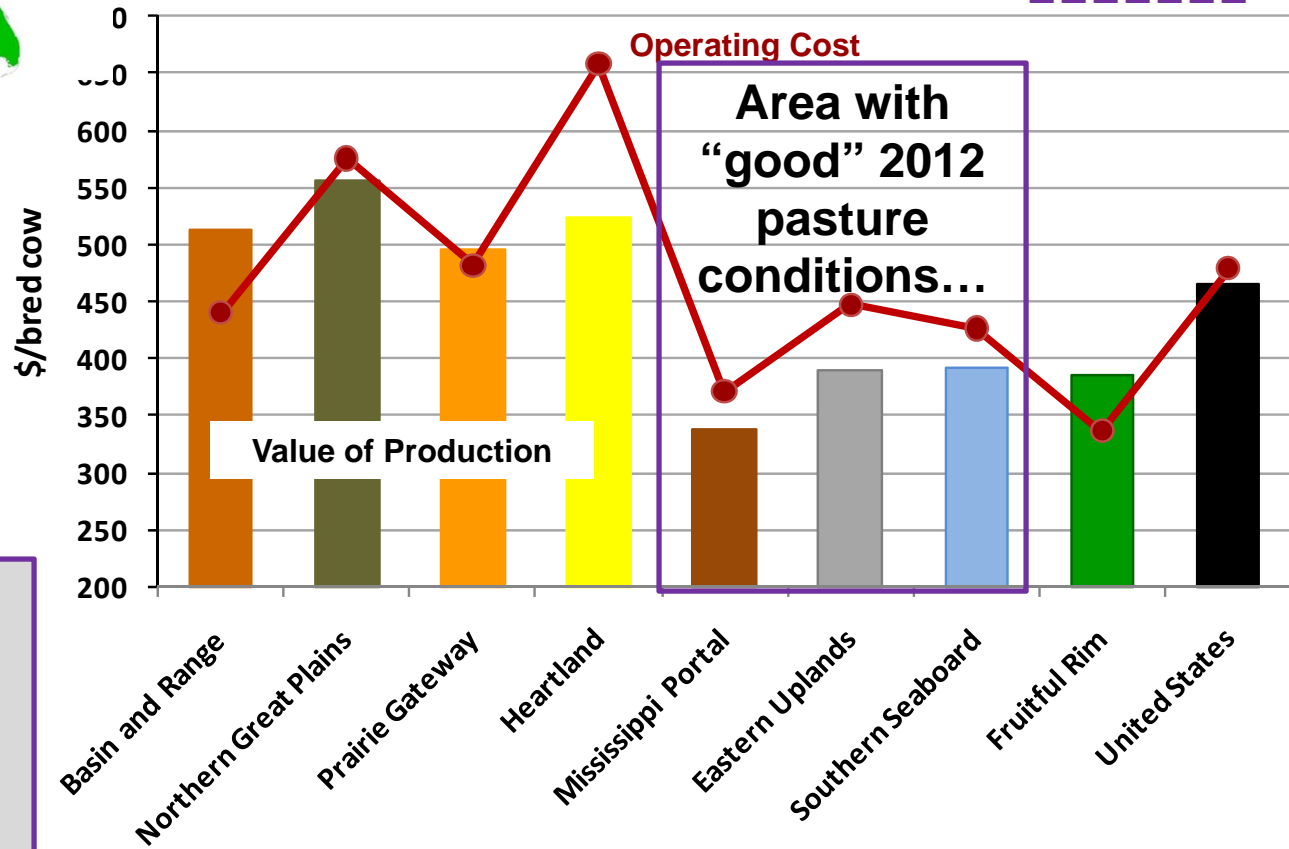
Data Source: USDA-NASS, Compiled & Analysis by LMIC





Do some regions have an economic advantage for expansion?

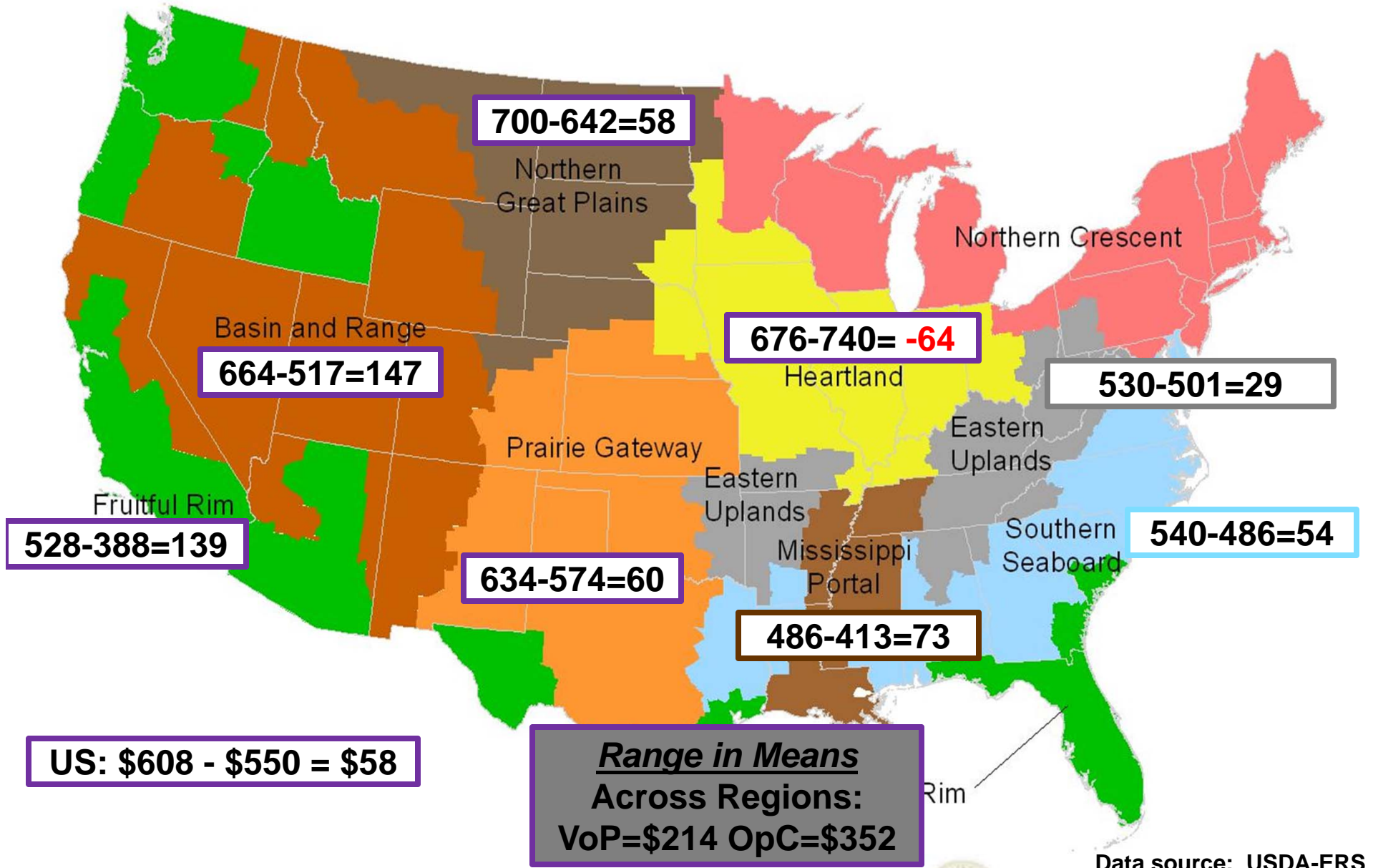
Value of Production and Operating Cost by Region, 2008-2010



Herds > 20 cows
 Operating Costs = 37% (MP) to 52% (NGP) of Total Costs





Data source: USDA-ERS

ERS 2011 (\$/cow): Value of Production LESS Operating Costs



Data source: USDA-ERS

Economic Outlook Overview : Stockers

- Historically high Values of Gain (VOG)
 - But also historically high Costs of Gain (COG)...
- Of course, not everyone has their typical feedstuffs/resources to engage this fall/winter
 -  VOG =  rewards for sound management
 -  COG =  pain of hiccups or poor management
 - Many producers feeding something new...
 - *Is there a widening gap between returns of stocker operations?*

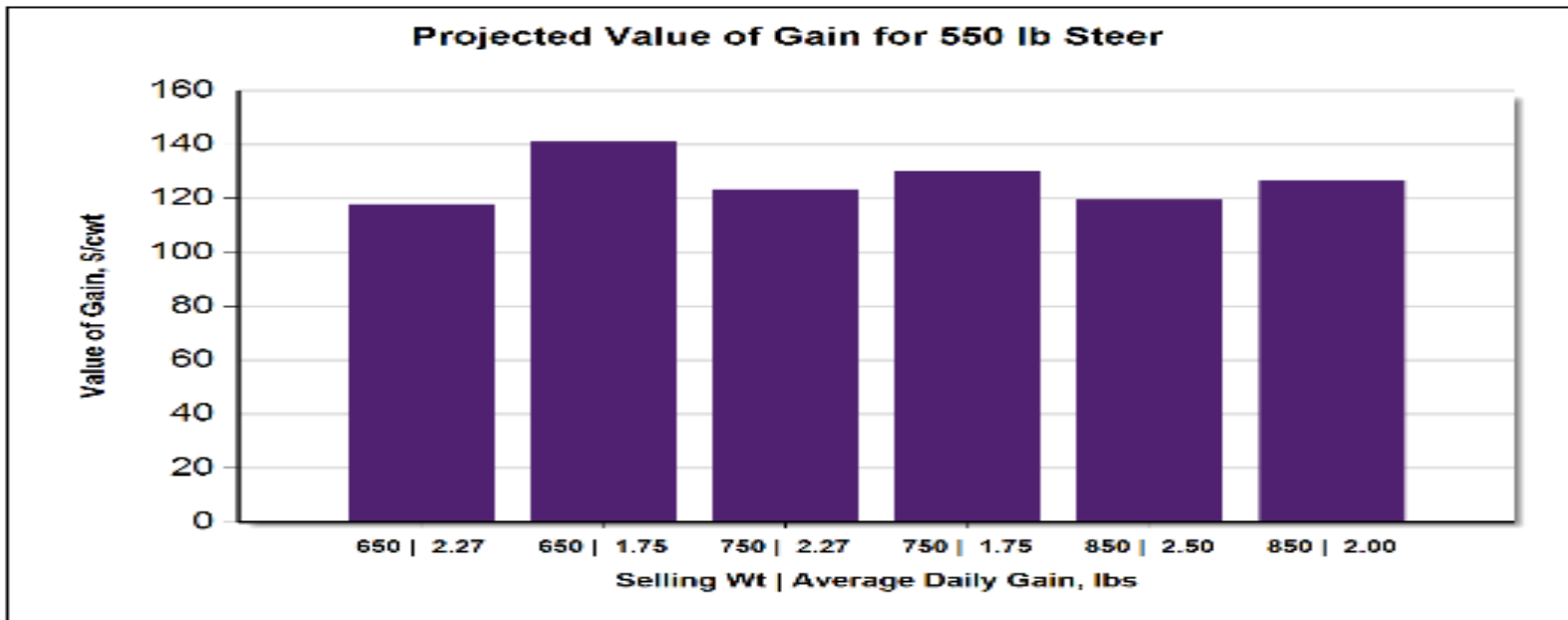


How Should VOG Be Projected?

- Naïve (current cash market offering) vs. Forward Looking (futures market & basis)
 - Important to recognize no crystal ball exist
 - Salina, KS / 550 to 750 lb in 3 month case / Jan. 07' to July 12' period: naïve is less accurate
 - *Forward-looking VOG projections are now updated daily on AgManager*

http://www.agmanager.info/livestock/budgets/production/beef/KSU_FactSheet_ValueOfGainForecastingApproaches.pdf





Projected Value of Gain					
Beginning Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, \$/cwt
550	650	01/21/2013	100	2.27	\$117.91
550	650	02/03/2013	100	1.75	\$140.79
550	750	03/06/2013	200	2.27	\$123.49
550	750	04/01/2013	200	1.75	\$129.97
550	850	04/07/2013	300	2.50	\$119.45
550	850	05/07/2013	300	2.00	\$126.73

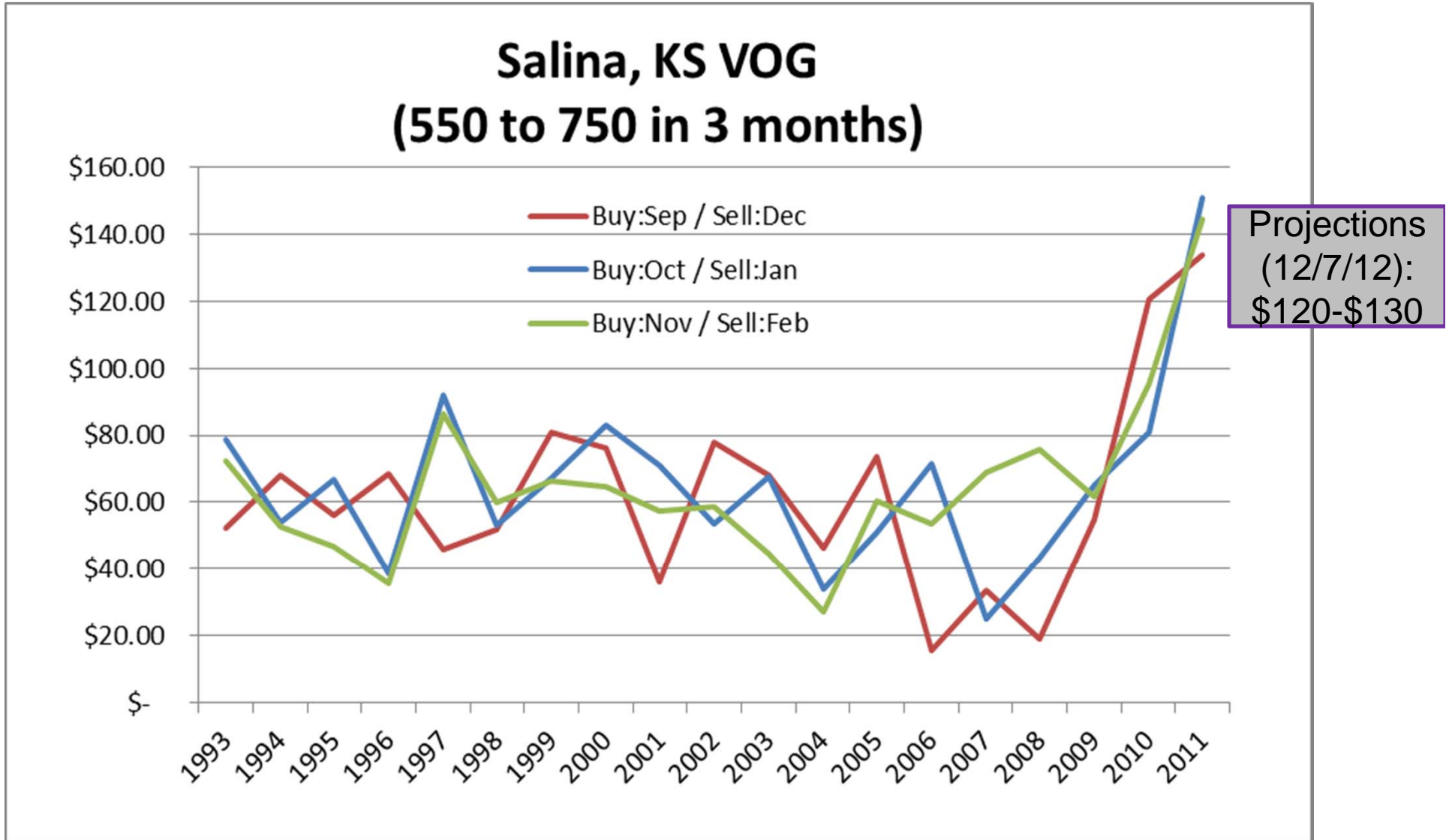
Note: Projections derived for the Salina, KS market using BeefBasis.com
 Related information is available at: BeefBasis.com

12/8/2012



<http://www.agmanager.info/livestock/marketing/graphs/cattle/prices/VOG.asp>
<http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx>

Historical VOG



Economic Outlook Overview: Feedlots

- Excess capacity concerns remain & are growing...
 - Drought & Mexican feeder supplies:
 - mitigated this initially / magnifying it now and going forward ...
- Closeouts have been at historically high losses...
 - 12 month rolling avg. thru Oct. 12 **-\$112.67**
- Recent placements +/- \$20 from break-even projections
 - Watch response to shrinking available supplies...



Historical and Projected Kansas Feedlot Net Returns (as of 12/7/12')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

October 12': **-\$204.77/steer**

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Nov-12	-122.98	113.04	125.57	146.34	91.60	134.31	131.58
Dec-12	-5.96	116.11	130.76	139.72	115.08	131.20	138.95
Jan-13	-31.93	119.78	129.88	138.38	114.15	132.22	134.36
Feb-13	-4.87	120.68	134.04	140.94	119.82	134.39	140.35
Mar-13	23.67	117.44	135.33	142.77	121.48	133.60	145.80
Apr-13	-18.87	115.30	132.41	144.87	112.06	133.82	142.39

Representative Barometer for Trends in Profitability

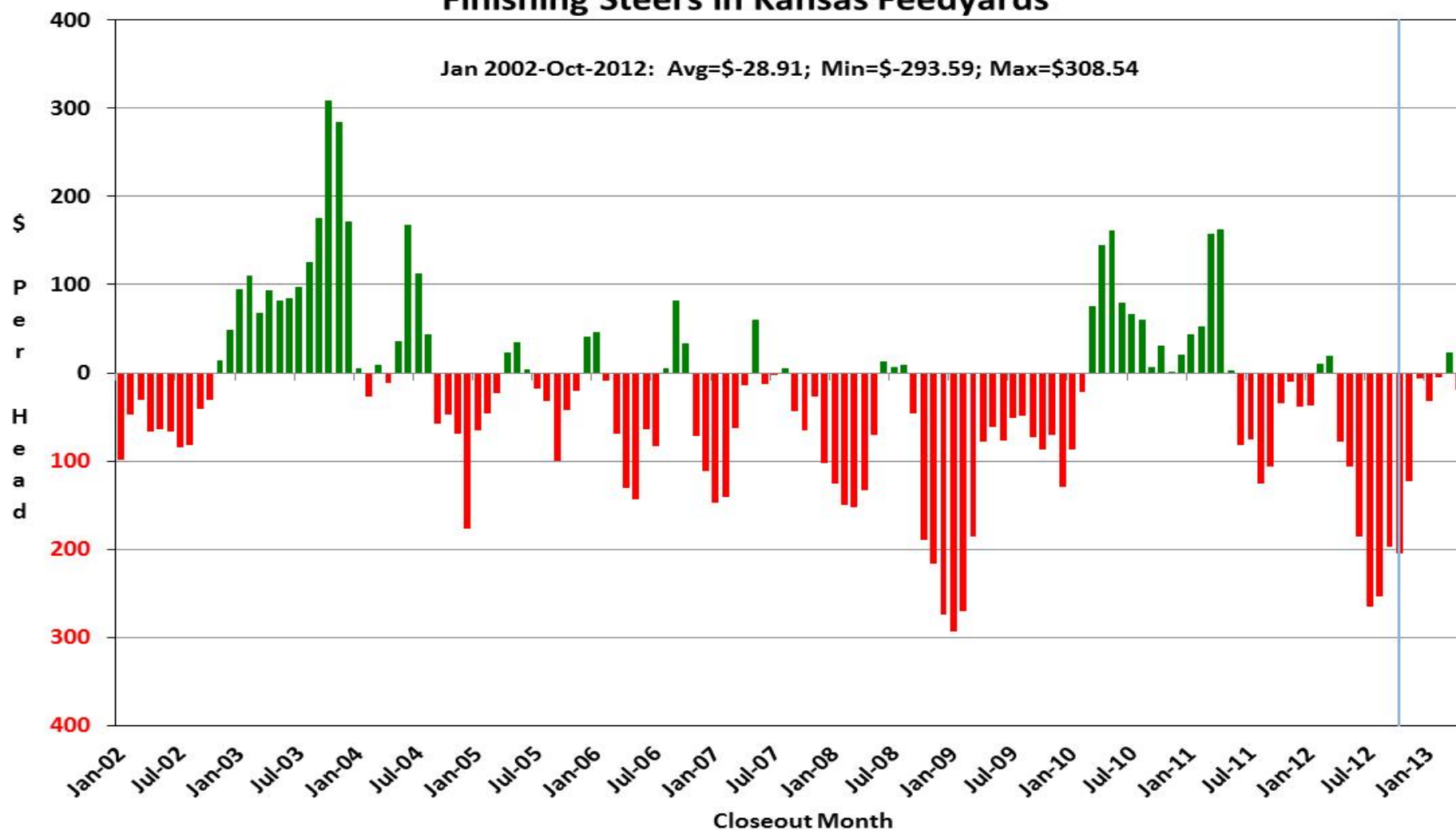
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Historical and Projected Kansas Feedlot Net Returns as of 12/7/12'

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



QUARTERLY FORECASTS (LMIC: 11/29/12)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2011						
I	8,314	1.8	770.9	0.7%	6,410	2.6
II	8,640	-0.5	759.2	0.7%	6,559	0.2
III	8,738	-0.2	770.9	-0.3%	6,736	-0.5
IV	8,395	-3.0	773.1	-0.8%	6,490	-3.7
Year	34,087	-0.5	768.5	0.1%	26,195	-0.4
2012						
I	8,027	-3.5	782.7	1.5%	6,283	-2.0
II	8,311	-3.8	779.1	2.6%	6,475	-1.3
III	8,332	-4.6	790.3	2.5%	6,584	-2.3
IV	8,297	-1.2	792.1	2.5%	6,572	1.3
Year	32,967	-3.3	786.1	2.3%	25,914	-1.1
2013						
I	7,725	-3.8	782.4	0.0%	6,044	-3.8
II	7,962	-4.2	779.1	0.0%	6,203	-4.2
III	8,034	-3.6	795.5	0.7%	6,391	-2.9
IV	7,719	-7.0	798.7	0.8%	6,165	-6.2
Year	31,440	-4.6	788.9	0.4%	24,803	-4.3
2014						
I	7,275	-5.8	791.8	1.2%	5,760	-4.7
II	7,511	-5.7	785.9	0.9%	5,903	-4.8
III	7,582	-5.6	803.7	1.0%	6,094	-4.6
IV	7,303	-5.4	806.9	1.0%	5,893	-4.4
Year	29,671	-5.6	797.1	1.0%	23,650	-4.6



QUARTERLY FORECASTS (LMIC: 11/29/12)

Year Quarter	Live Sltr.	% Chg.	Feeder Steer Price	
	Steer Price	from	Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2011				
I	110.12	23.1	129.06	150.07
II	112.79	17.1	132.03	148.61
III	114.05	19.5	135.93	141.69
IV	121.99	21.7	143.15	153.11
Year	114.74	20.3	135.04	148.37
2012				
I	125.29	13.8	154.25	182.41
II	120.91	7.2	152.65	178.65
III	119.69	4.9	141.82	150.57
IV	125-126	2.9	145-146	160-161
Year	122-123	6.8	148-149	167-169
2013				
I	128-131	3.4	142-146	161-165
II	128-132	7.5	146-151	163-169
III	126-131	7.4	148-154	164-173
IV	128-134	4.4	149-156	163-170
Year	128-132	6.1	147-151	163-169
2014				
I	132-139	4.6	154-162	175-184
II	134-142	6.2	157-167	178-190
III	132-140	5.8	158-169	174-187
IV	133-143	5.3	156-168	171-185
Year	134-140	5.4	158-165	177-184



Economic Outlook Overview :

Beef Demand

- Meat prices rising w/i basket of purchases...
 - “bacon shortage” discussions are exaggerations; record retail meat prices in 2013 are not...
 - as prices increase, public will require more quality...
 - Quality and value are in the eye of the beholder...
 - = debates on various technologies likely will intensify within industries, with customers, and with consumers...

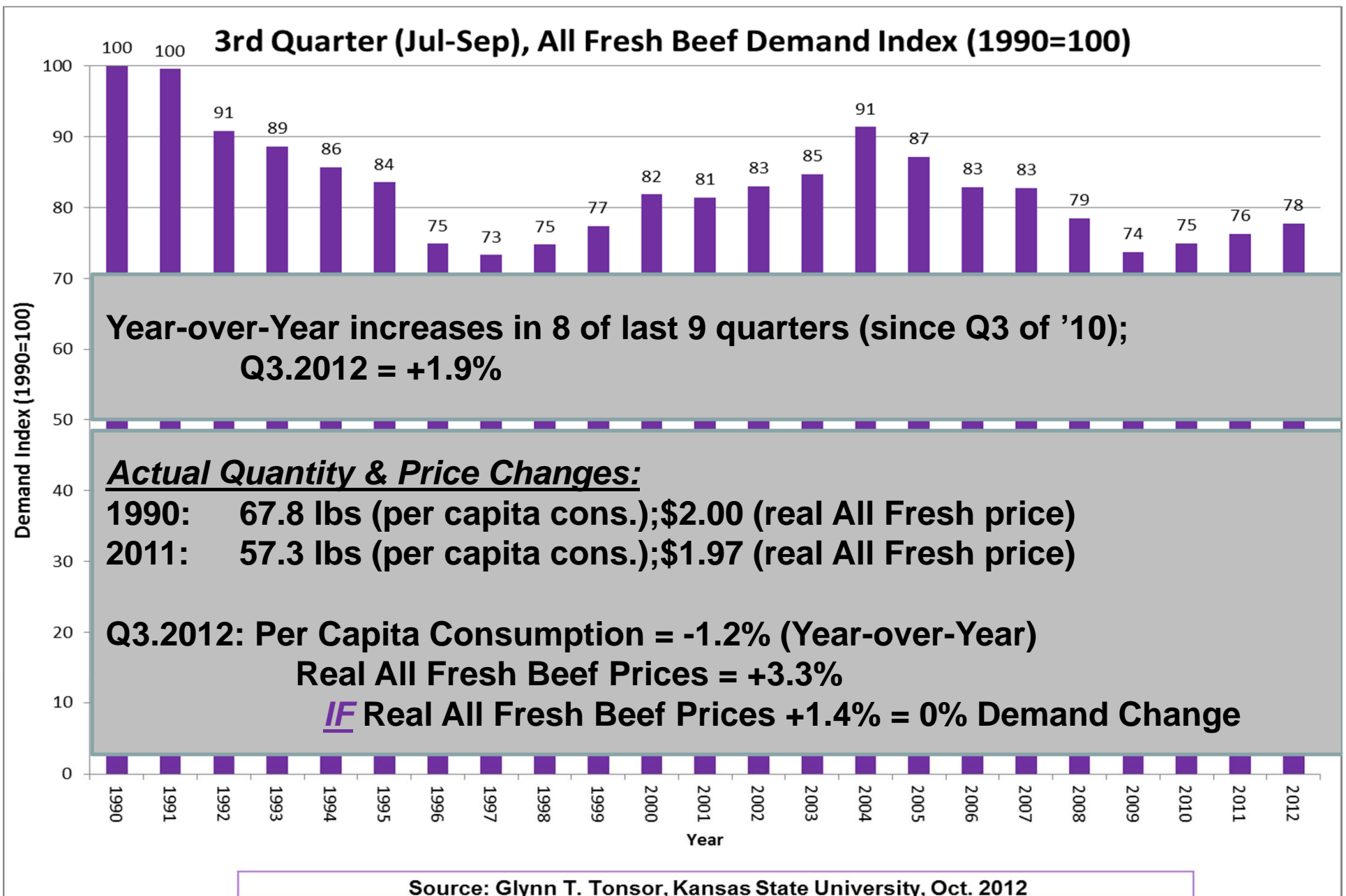


Economic Outlook Overview :

Beef Demand

- Discussion on demand “getting complicated”
 - Growing request for information regarding “how my food is produced”
 - Animal welfare, food safety, antibiotics, hormone use, local, organic, sustainability, traceability...
 - Requests do not necessary = higher WTP...
 - Voting vs. buying behavior disconnect is growing...
 - “Perception is reality” implications are growing





Industry Size Going Forward ...

- The U.S. beef cow industry has been downsizing for a long time...
 - Even if national herd expands, the number of operations will likely continue to decline...
- Alignment with those “in it for the long haul” is increasingly important



USDA's longer-term projections (as of Feb. 2012) ...

<http://www.ers.usda.gov/Publications/OCE121/>

- **U.S. beef cow inventory:**
 - 29.8 million in 2012
 - 34.5 million in 2021 (+/- 1997 levels) / was 39.3 million in 1982
 - Beef Production (billion lbs) : 25.4 (1997), 26.2 (2011)
 - *More beef per cow will continue = less throughput in # head...*
- **Domestic per capita red meat & poultry consumption:**
 - 221 lbs in 04-07 (Beef=65.7 lbs; Pork=50.4 lbs; Poultry=103.8 lbs)
 - 198 lbs in 2013 (Beef=51.3 lbs; Pork=46.3 lbs; Poultry=98.5 lbs)
 - 213 lbs in 2021 (Beef=58.7 lbs; Pork=47.2 lbs; Poultry=105.8 lbs)
 - *These lower per capita volumes will be purchased with more consumer requests and hence requirements for industry-wide investment (& collaboration) in beef quality ...*



Hot Topic/Big Picture Points to Ponder

- MCOOL
 - Aggregate economic loss is apparent
- Animal Welfare
 - Active USDA project
- Complex relationship & views on technology:
 - Feed 9 billion, “control” prices, and do so in an “acceptable” manner is the story...
- Issues vary in many facets BUT each raise uncertainty for industry stakeholders...



Other points for discussion

- Global beef demand growth & restrictions from U.S. industry heterogeneity must be watched...
 - Comparative position of U.S. is critical...
- Growth of cow-herd vs. # of operations
 - Are traits of those who may expand more aligned with changing consumer requirements?
- *How does regionally varying expansion (cow herd) &/or excess capacity resolution (feedlot and/or packer) influence your business?*



What To Do?

- Utilize available resources
 - VOG projections, decision aides, these events...
- Do you know your comparative advantage?
 - Having a favorable cost structure is imperative...
- I encourage you to:
 - Recognize this “isn’t your father’s world” anymore and manage accordingly...
 - “Think globally, manage locally, and stay informed”



More information available at:



This presentation is available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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K-State Decision Aides: Cattle Price Oriented

(<http://www.agmanager.info/Tools/default.asp>)

- Expectations on Future Cash Prices
 - <http://www.beefbasis.com/>
- Examine Feeder Cattle Risk Management Alternatives
 - *“K-State Feeder Cattle Risk Management Tool”*
- Project Premium/Discount of Calf/Steer Attributes
 - *“K-State Feeder Cattle Price Analyzer”*
- Stocker Breakeven Selling/Purchasing Prices
 - *“Cattle Breakeven Selling and Purchase Prices”*



Other K-State Decision Aides

(<http://www.agmanager.info/Tools/default.asp>)

- NPV of Beef Replacements
 - *“KSU-Beef Replacements”*
- Beef Cow Lease Agreements
 - *“KSU-CowLease”*
- Determining Flint Hills Pasture Rents
 - *“KSU-Graze.xls”*



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February 7

May 1

August 7

November 8

For details about specific topics and registering for webinars see additional information on AgManager.info AND <http://www.meatingplace.com/Industry/Webinars>

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